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No. 7

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CHINA REPORT

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NATIONAL ECONOMIC POLICY

PRC ECONOMIC JOURNAL DISCUSSES PRODUCTION OF CONSUMER GOODS

Beijing JINGJI YANJIU [ECONOMIC RESEARCH] in Chinese No 6, 20 Jun 79 pp 20-24

[Article by Lin Pei [2651 0012]: "It Is Not Marxist Viewpoint To Overlook the Production of Consumer goods"--passages enclosed in slantlines printed in boldface]

[Text] I

At first glance, talk on this subject seems idle. Having carried out socialist economic construction for so many years, do we not know the momentous significance of producing consumer goods? Actually this is not true. For more than 20 years, a serious imbalance has time and again appeared among agriculture, light industry and heavy industry in the economic life of our country. It has continued for a long time and taken deep roots, making it very difficult to readjust the imbalance now. What is the reason for this? Epistemologically, one of the important reasons is that some comrades are not clear about the position and role of consumer goods production in the socialist national economy and have many muddled and wrong ideas that disparage and overlook consumer goods production. If this problem is not seriously solved, it will be impossible for us to take drastic action to set in good order the proportionate relations between the two major parts and impossible to achieve a high-rate of progress in socialist modernization.

For many years a self-contradictory phenomenon appeared in our economic work. While it is demanded that the national economic plans be arranged in the order of agriculture, light industry and heavy industry; in fact, to "insure" heavy industry, agriculture and light industry were "edged out" in the distribution of financial and material resources. While it is claimed that agriculture was the foundation of the national economy, and demanded that agriculture be placed in the primary position, in fact it was heavy industry, not agriculture, that was placed in the "primary position." Investments in agriculture were much less than those in the heavy industry. Because of this and also the fact that many rural policies were not implemented, our agriculture remains protractedly backward and incompatible with the development of industry. The problem is more pronounced in the relationship between light and heavy industries. A muddled idea prevails that the

character "heavy" is erroneously understood as "heavier than Tai mountain" and the character "light" as "lighter than a feather." Whenever a contradiction occurs between light and heavy industries in the supply of funds, power, fuels and materials, the needs of heavy industry are "insured" at all cost and light industry is edged out. While light industry is assured that it will "not be edged out or made to yield the way"; ideologically, it "may either be edged out or made to yield the way." In actual fact, light industry is "edged out and made to yield the way." The ratio between national investments in light and heavy industries were 1:8 during the first 5-year plan. At that time, market supplies of light industrial products were able to make ends meet but were already strained, showing a tendency that it could not meet the demand. The correct policy should be to increase the ratio of investments in light industry. This point was mentioned by Comrade Mao Zedong in his "On Ten Major Relations" in 1956. However, the correct guiding principle formulated by Comrade Mao Zedong was not respected, nor was it implemented in practice. The state of affairs in the subsequent 20 years was that the proportion of investments in light industry was further pressed down and the ratio of investments in light and heavy industries were changed from 1:10 to 1:14. The position of light industry became increasingly "lighter" in the national economy and market supplies of light industrial products were increasingly strained. Things went to such an extent that the following absurd phenomenon appeared some years ago: To insure power supplies for the production of steel ingots, electricity for many light industrial enterprises was "switched off." The steel ingots produced at such a great cost were actually not urgently needed and were beyond our steel-rolling capacity. As they could not be turned into rolled steel, a considerable quantity of these steel ingots "stood idle" as accumulated products temporarily useless to production and construction. They were products that had to wait for the next year before they were heated and turned into rolled steel, thus wasting time and money for nothing. On the other hand, due to shortage of electricity, certain consumer goods urgently needed by the people were forced to decrease production. There were numerous examples of this. For instance, certain machine products that were already overproduced were still turned out blindly. Many daily necessities which were in short supply on the market were "treated with indifference" and their production was limited to "four days a week" or "three days a week." (Some light industrial enterprises were also operating at half capacity for lack of raw materials because industrial crops were treated with similar "indifference.")

Here we must raise a question: What is the purpose of socialist production after all? Is it mainly for the purpose of meeting people's consumer needs or for the purpose of seeking certain heavy industry production-increase figures which have an empty reputation and no practical value? Why should we disregard people's vital needs and do things which are impressive merely in appearance? Connected with this question is another question: What is the purpose of developing the production of the means of production? Is it in conformity with the Marxist theory of reproduction to develop the production of the means of production while overlooking and damaging the

production of consumer goods? These two questions are actually in accordance with the basic economic law of socialism and the law of planned and proportional development of the national economy, and also an important problem that must be solved in readjusting the national economy at present.

II

What is the purpose of socialist production? Engels made it very clear that it is for the purpose of "insuring the well-being and increasingly rich material life for all members of society" and "insuring that their physical and intellectual power are fully and freely developed and applied." (Engels: Selected Works of Marx and Engels, "Anti-Duhring," Vol 3 p 322) In other words, it is for the purpose of meeting the needs (including laborers' individual consumer needs and communal consumer needs) of material and cultural life of the whole body of working people. Stalin's presentation was slightly different. He said: "To insure maximum satisfaction of the ever growing material and cultural needs of the whole society is the /object/ of socialist production. (Stalin: Problems of a Socialist Economy in the Soviet Union, People's Publishing House, 1961 Edition, p 62) Why did he make such a generalized presentation as "the need of the whole society?" No concrete explanation was given in the book. If we understand it in light of the concrete historical conditions of the contemporary world, we will readily find that before socialism wins worldwide victory, socialist countries cannot possibly devote all their social production forces to meeting people's consumer needs. They must set aside part of their social productive forces to produce products necessary for opposing imperialist aggression, safeguarding the socialist countries, consolidating the dictatorship of the proletariat and aiding the world revolution. These specially needed products are included in the "needs of the whole society." But Stalin added: "The object of socialist production...is man and his needs, that is, satisfaction of man's material needs." (Ibid, p 62) This presentation is identical with the one by Engels. From this it may be clearly seen that the "needs of whole society" Stalin had in mind refer to people's material and cultural needs in addition to the special, social, historical needs mentioned above.

Since this is so, how should socialist production be arranged? Stalin made a presentation known as "Socialist production is /subordinate to/ its main object." (Ibid, p 62) That is to say, it should be subordinate to people's consumer needs. In other words, to meet the material and cultural needs of the working people is the main starting point as well as the main object and end-result of developing our socialist production and arranging our national economic plans. On the basis of this principle, in arranging the national economic plans we must, first of all, arrange the production of consumer goods necessary for people's life and determine the rate of its increase according to what is actually possible. After that, on the basis of the demand for an increase in consumer goods, we should correspondingly arrange production of the means of production and determine the rate of its increase. This is what is implied in Comrade Mao Zedong's correct idea

of arranging the national economic plans in the order of agriculture, light industry and heavy industry. As we know, agriculture and light industry basically produce consumer goods; only a small part produces the means of production (like natural rubber, industrial cloths); heavy industry basically produces the means of production and only a small part produces consumer goods (like buses, electricity for domestic use). The basic implications of arranging the national economic plans in the order of agriculture, light industry and heavy industry are, first, to arrange production of consumer goods and then correspondingly arrange production of the means of production. (Comrade Mao Zedong's guiding principle of arranging the plans in the order of agriculture, light industry and heavy industry also contain an important doctrine that agriculture is the foundation of the national economy and that development of agriculture is of decisive importance to the development of industry. This problem has been extensively discussed in the press and no repeated reference to it will be made here.) Marx once said that the production of the means of production "has never taken itself as the object." (Marx: Capital, People's Publishing House, 1966 Edition, p 339) The means of production cannot directly meet people's material and cultural needs. They are merely elementary or intermediate products of social reproduction. In carrying out production of the means of production, by no means do people carry out production for the sake of producing the means of production, still less for seeking a certain empty reputation. People merely aim at making it serve the production of consumer goods to obtain the ultimate product of social reproduction--consumer goods to meet people's material and cultural needs.

These reasons are general knowledge of the Marxist political economy. Yet some comrades know nothing about them. When arranging production they put the cart before the horse: 1) They mistake the production of the means of production for the object itself and, disregarding people's consumer needs, one-sidedly develop production of the means of production. 2) They elevate production of certain means of production to an inappropriate position, erroneously taking it as the starting point and end result of developing the national economy, and demanding that all production undertakings subordinate themselves to it and yield their way to it. 3) For the sake of fulfilling certain impractical plans for increasing production of the means of production, they do not hesitate to damage and edge out production of many kinds of consumer goods. This economic policy of "putting the cart before the horse" shows itself in blindness. It is "blind" because it is not clear about the object of socialist production. It is "blind" because production and construction are carried out without regard to the object of socialist production and deviate from the objective requirement of the basic socialist economic laws. People are hoping everyday that our production and construction work will gradually give them a life of high-degree consumption of goods. Owing to complicated reasons (including the blindness mentioned above), it brings to them a life of low-degree consumption of goods and high-degree waste in production. Twenty-seven years ago Stalin, criticizing Yalosenko, said: "Comrade Yalosenko forgets that people produce not for production's sake but for the sake of

meeting their needs. He forgets that production divorced from social need will decline and disintegrate." (Ibid, pp 60-61). Stalin's words are brilliant and worthy of our deep thought.

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Another epistemological reason for the above-mentioned miscalculation of production arrangements is that the Marxist theory of reproduction is only one-sidedly understood. For a long time some comrades emphasized only one slogan whenever talking about the enlargement of reproduction: "Give priority to developing production of the means of production" or "give priority to developing heavy industry." They thought that this was the whole content or basic content of the Marxist theory of reproduction. In fact, such an understanding was far from perfect. The Marxist theory of reproduction tells us that to enlarge reproduction, it is necessary, generally speaking, to increase the production of the means of production faster but, under no circumstances, may this be carried out apart from an increase in the production of consumer goods. Lenin said long ago: "When it comes to accumulation, it will not do 'not to rely on' the production of consumer goods because, in order to enlarge reproduction, new variable capital is needed, hence consumer goods are needed." (Collected Works of Lenin, "On the So-called Market Question," Vol 1, p 68) Therefore, applying the slogan, "give priority to developing production of the means of production" is conditional. It is conditioned on the coordinated development of the two major parts of production. If one stresses this slogan to such degree that the objective requirement of coordinated development of two major parts of production are neglected, one will head for the reverse side.

Dwelling on social reproduction, Marx comprehensively expounded the dialectical relationship between production of the means of production (Part I) and production of consumer goods (Part II), which conditions each other. He pointed out that to enlarge reproduction, it is necessary to achieve: (1) $(V \text{ plus } M) \text{ is greater than } IIC$. This means that the surplus means of production that can be furnished by Part I after deducting the means of production consumed for simple reproduction by Part I, must be greater than the means of production needed for simple reproduction by Part II. Only thus can Part I and Part II obtain additional means of production so that their production scope can be enlarged and developed. (2) $II (C \text{ plus } M - M/X \text{ is greater than } I (V \text{ plus } M/XLM))$. This means that the surplus consumer goods that can be furnished by Part II after deducting the consumer goods consumed by the whole body of production personnel in Part II and the capitalists, must be greater than the consumer goods needed by the whole body of production personnel in Part I and the capitalists. Only thus can Part I and Part II obtain additional consumer goods so that they can add new production personnel, enlarge their production scope and develop their production. (Concerning the two formulas mentioned above, see Capital Vol 2, People's Publishing House, 1964 Edition, p 580-581) the M/X in the second formula refers to the part of surplus value used by the capitalists for their individual consumption. (This phenomenon is found only in capitalist

society and is no longer found in socialist society.) Marx's two formulas clearly show that Part I production and Part II production depend on each other, condition each other and promote each other and are conditioned on each other. Only when the two parts increase in a coordinated and proportionate way can enlargement of reproduction be smoothly carried out. If we stress one and neglect the other and walk lamely, we will be unable to enlarge reproduction. Part I may gain a temporary growth for a time by "edging out" Part II, but one with one leg long and one leg short cannot stand firm and will soon fall. Haste makes waste.

As heavy industry was particularly backward in old China, the people of our country paid a high price in blood during the protracted struggle against imperialist aggression. After the founding of new China, comrades earnestly hoped to change this backward state as quickly as possible and showed a great enthusiasm for "giving priority to developing heavy industry." This ~~method~~ was very valuable. However, if we rely on ardor and do not act according to the objective economic laws, we cannot win a high rate. As Comrade Mao Zedong said: "Here a question arises. Do you want to develop heavy industry really or falsely, badly or not so badly? If you want it falsely or not so badly, then strike agriculture and light industry and make less investments in them. If you want it really or badly, then you should give importance to agriculture and light industry, insure more grain and raw materials for industry and accumulate more funds. The investments in heavy industry will also be greater in the future." "Taking a long view, the former method will make heavy industry achieve a decreased and slower development and at best will provide heavy industry with a weak foundation. After several decades it will be discovered that on the whole this does not pay. The latter method will make heavy industry achieve greater and faster development and, with the people's living needs insured, will provide it with a strong foundation for development." (Selected Works of Mao Zedong, "On Ten Major Relations," Vol 5, p 269) Such are the dialectics of history. To develop heavy industry at the expense of agriculture and light industry, to develop Part I production by "edging out" Part II production, and to act without regard to the Marxist theory of reproduction will result not only in failing to win a high rate of development of the national economy but also interferes with and disrupts simple reproduction and causes stagnation, disorder and retrogression of the national economy. The heavy industry, which "forces itself up" for a time, will "fall" down. This does not pay at all. Does not the serious lesson of big "saddle shape" that appeared twice during our economic construction eloquently prove this?

What is perplexing is that over the years the lecture notes and essays written by some of our economists dwell only on Marx's first formula and not on his second formula. Is this an integral and accurate propagation of Marxism? No! This one-sided propagation virtually justifies the wrong idea of one-sidedly developing heavy industry. It has produced very undesirable effects.

Analyzing the law of enlarging reproduction in capitalist society, Lenin arrived at this conclusion: "In a capitalist society, the production of the means of production is faster than the production of consumer goods." The reason, he said, lies in the fact that "capitalist production has created the technology of high-rate development that incomparably surpassed each previous era." (Collected Works of Lenin, "On the So-called Market Question," Vol 1, p 72) The more technology advances, the more the capitalists are able to substitute machines for manpower, use machines to force out the wage laborers, and increase production without increasing the number of laborers, with only a slight increase in the number of laborers, or even with less laborers. The tendency of capitalist production development is that the "organic composition of capital" is increasingly higher, that is, of the total investments made by the capitalists, the proportion of constant capital (capital for buying the means of production) becomes increasingly greater and the proportion of variable capital (capital for hiring laborers) becomes increasingly smaller. Therefore, when enlarging reproduction, capitalism must add more means of production and less consumer goods, thereby stimulating the production of the means of production to increase faster than the production of consumer goods. Capitalist utilization of machines excludes large numbers of laborers, causes them to lower their purchasing power because of unemployment, and decreases social demand for consumer goods. This state of affairs also causes the growth of consumer goods production to fall behind the growth of production of the means of production.

Is this conclusion applicable to a socialist society? It should be said that it is applicable but not fully applicable.

It is applicable because the growth of socialist production also rests on a highly technical foundation and relies on technical progress and higher labor productivity. Socialist enterprises are also required to increase production without increasing the number of men or with only a smaller increase of men, and to guard against "keeping more men than there are vacancies." As to the composition of socialist investments, the investments for increasing the means of production are also increasingly greater than the investments for increasing the labor power. Here is the basis of Stalin's proposition that enlargement of reproduction in socialist society also demands that "the growth of production of the means of production occupies the superior position." (Stalin: Problems of a Socialist Economy in the Soviet Union, p 64)

It is not fully applicable because in a socialist society capitalist exploitation has been eliminated and the situation is no longer found in which capitalist utilization of machines creates a large unemployed population with the result that social demand for consumer goods decreases. Socialist production is required to insure, according to the objective requirement of the basic economic law of socialism, maximum satisfaction of the ever increasing consumer needs of the whole working people. (Capitalist production directly aimed at producing surplus value will not

develop in this direction.) Therefore, in arranging the relations of proportion between the two major parts of production in a socialist society, the proportion of production of consumer goods should be relatively greater. This is determined by the character of the socialist system and the object of socialist production. The proportion of consumer goods production must not be made smaller, particularly in our country which is a socialist one with a large population and which must insure full employment of the laborers and improve the life of more than 900 million people year by year. If we forget this point we shall make mistakes. Regrettably, some of our comrades were not quite clear about this question. They over-stressed "priority to the development of production of the means of production" and inappropriately arranged too great a proportion of certain means of production. In addition, they did not fully know the extremely great importance of consumer goods production to the socialist construction of our country, forgetting that to make a good arrangement for the life of more than 900 million people is a thing of first-rate importance to our production and construction. Instead of relatively arranging a greater proportion of consumer goods production, they made the proportion too small. In this way, the proportions of the two parts were seriously imbalanced, both the state and the people suffered hardships, and the superiority of the socialist system was not brought into full play. This lesson is deep in the extreme.

Marx once said that under given conditions, if we want social reproduction "to go on normally, the accumulation in Part II must go forward faster than the accumulation in Part I." (Marx: Capital, People's Publishing House, 1964 Edition, p 570) Having suffered from a protracted imbalance, our national economy is reaching such a juncture and Marx's behest is of momentous, realistic guiding significance to us. The party Central Committee has decided to readjust the national economy as a whole, greatly increase the growth rate of consumer goods production (agriculture and light industry) and adopt a policy of discriminately dealing with the growth-rate of heavy industry--uplifting the short-line ones (such as electricity, coal, oil, transportation, construction materials) and bringing down long-line ones (such as steel and certain machine products). This is entirely necessary. It is an important policy decision. Let us sum up our lessons and experiences seriously, resolutely overcome the muddled, wrong views of overlooking the production of consumer goods, correct our knowledge of the object of socialist production and the Marxist theory of reproduction and strive to realize this policy decision of the central party committee.

CSO: 4006

NATIONAL ECONOMIC POLICY

STRICT ENFORCEMENT OF TAX LAWS URGED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 3,
20 Mar 79 p 26

[Article: "Tax Revenue Laws Must Be Strictly Enforced"]

[Text] Comrade Huang Yongzhen's [7806 3057 3791] letter from the Finance Bureau of Tongren District, Guizhou Province, raised an extremely important question, namely the need to rely on the law, strict enforcement of the law, and mandatory investigation of violations of the law to firmly uphold the dignity of the tax revenue laws.

The tax codes are an important tool in the consolidation of the dictatorship of the proletariat, and they constitute an important legal system of the state for the distribution and redistribution of national income and for the accumulation of capital for socialist modernized construction. They possess the full force of law and must be strictly observed and resolutely carried out. No one has the right to set himself above nationally promulgated laws. Nowadays, leaders in some regions, sectors and units disregard the tax revenue laws. They do not follow the law. With a single sentence, they can change stipulations of the national tax codes, arbitrarily reduce taxes, avoid taxes, or even direct a halt to the collection of taxes. These people who place themselves above the laws of the land cannot be tolerated. The methods that Comrade Huang Yongzhen spoke of in his letter for levying taxes such as "the secretary's signature," or waiting for the "district committee to discuss and concur" and ordering a "freeze on tax revenues going into the treasury" are wrong and must be decisively corrected. Serious cases must be punished according to law.

Action in accordance with law, proportionate calculation of tax, and timely and full collection of taxes in accordance with law are the rights and glorious duties of revenue agencies in the implementation of the tax revenue laws. Every revenue cadre must consciously protect and defend the dignity of the revenue code, and resolutely fight against all

violations of the tax codes such as ideas or actions that seek to supplant the law with personal authority. All revenue cadres must be models in the protection and defense of the revenue codes, and they positively may not violate the law by following the "desires of office-holders," or by "perverting the law," or by "selling the law."

At the present time and concurrent with the rapid development of the national economy, the system of economic administration is in the process of reform. External economic contacts are increasing daily, and for the revenue system to act as an integral part of the superstructure, it must be appropriately reformed so as to fit in with the development of circumstances both in order to assure public revenues and to put to better use the economic leverage of revenues. But these reforms are uniform throughout the country and require a concentration of leadership, penetrating investigation, and across-the-board study on the basis of the public economic policies of the party and the state. This is to say that a unified reform of the revenue code is to be undertaken and individual regions or sectors may not set out to change the unified tax code as they please on the basis of their partial and local interests. If the dignity of the revenue code is to be maintained, the principle of obedience of the parts to the whole must be upheld, and when revenue problems arise that truly require separate consideration, they too must be strictly handled according to the system for the management of revenues without any additional approvals or arbitrary changes.

Tax collection in accordance with law and tax payments according to the code are two aspects of collection and payment that must be mutually upheld and principles of behavior that must be observed by everyone. It must be fully recognized that strict defense of the revenue code requires proper implementation of revenue policy and is a principal assurance for the rapid accumulation of capital for the realization of the four modernizations. Comrades fighting on the battleline of public revenues must recognize even more the importance of public revenue work, gaining thereby an enhanced feeling of honor and responsibility about public revenue work, respect the law, be honest in performance of official duties, conscientiously implement the provisions of the tax codes, and make new contributions to the rapid accumulation of capital to accelerate socialist modernized construction.

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CSO: 4006

NATIONAL ECONOMIC POLICY

NATIONAL INDUSTRIAL CONFERENCE HELD IN CHENGDU

Beijing XINHUA in English 1249 GMT 25 Jul 79 OW

[Text] Chengdu, July 25 (XINHUA)--A national industrial conference held here recently called on workers throughout China to step up the movement to increase production and practise economy in the second half of this year.

Participants agreed that with workers across the country involved in the effort, an annual eight-percent increase in industrial production can be achieved this year, despite the fact that industrial production in the first six months of the year rose only 4.1 percent over the same 1978 period.

They noted that increases in the purchase prices for farm produce and in workers' wages are expected to lead to greater consumer demand in the second half of the year. Therefore, increased production of textiles, light industrial products, electronics, handicrafts and building materials are urgently needed in both urban and rural areas.

Priority will be given to raising production of cotton, woolen and silk fabrics, synthetic fibres, sewing machines, furniture, television sets, recording machines, electric gramophones, pocket-sized computers, refrigerators, electric fans and cement. Production of rolled steel, pig iron, nonferrous metals, coal and electricity should also increase accordingly.

Those attending the conference held that conditions are favourable for meeting production goals for the year. Good farm yields reaped so far this year have provided more farm and sideline products for industry than in any previous year.

Conference participants called for efforts to conserve energy, raise energy efficiency and make use of exhaust heat. They also recommended coordinating industrial, trade and commercial efforts to enliven economic work.

Held in Chengdu, capital of Sichuan Province, from July 10 to 23, the conference was attended by leading members of provinces, municipalities and autonomous regions in charge of industry and communications and of related ministries and departments.

NATIONAL ECONOMIC POLICY

NEED TO STRENGTHEN ENTERPRISE MANAGEMENT STRESSED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 3,
20 Mar 79 pp 12-15

[Article by Chen Yuangzhen [7115 9337 4176]: "Enterprise Management Must Adapt to the Demands of Great Changes"]

[Text] The shift in focus of all party work to socialist modernization is a great change. In order to adopt to this change, the task that presently confronts industrial and mining enterprises is to concentrate major efforts on construction for production with all work being required to revolve around this central point. In appraising the merits of an enterprise, most important is how effective it has been economically, which is to say how well it has fulfilled the eight economic criteria. Profit is the ultimate criterion among the eight economic criteria. Profit symbolizes new material wealth created for society, and profit determines the degree of expansion for further production. Consequently, to make up deficits and increase surpluses is the fountainhead for the accumulation of more funds for the four modernizations, and it is also an important issue relating to the most urgent and most fundamental welfare of the proletariat and the broad masses of our country.

Recently, I had the opportunity to participate in a deficit makeup and surplus increase inspection unit in the chemical industry system of Fujian Province. In the process of inspecting chemical enterprises, it was found that once the "gang of four" had been smashed, a basic change took place in the management mess in enterprises caused by the long term interference and damage of Lin Biao and the "gang of four," but the changes are not yet complete. In the inspection of provincial enterprises and of 16 plants in Fuzhou and Xiamen, for example, though the extent and amount of deficits have diminished, and though a clear increase has occurred in profit making enterprises, those increases in profits have been extremely limited and are a very, very long way from meeting the needs for fund accumulation in order to accelerate the four modernizations. One medium-size multiple-producing chemical fertilizer plant made an annual profit of 6.7 yuan, but it had been socially funded

at 80 million yuan (fixed funds plus circulating funds). Another medium-size chemical plant showed annual profits of 9 million yuan, but it had been funded at almost 50 million yuan. A rubber plant of medium size with an annual profit of more than 4.5 million yuan had been funded at 15 million yuan. So the rate of profit on funds is not very high. One reason is that supplies of energy, of raw materials, and of fuels are inadequate, and another reason is that management is not all it could be. As was pointed out by the Third Plenary Session of the 11th Party Central Committee, "In consequence of the long term great damage caused by Lin Biao and the 'gang of four,' many problems still exist in the national economy. A large proportion of missed opportunities have not been recouped, and various messes in production, in construction, in the circulation of commodities, and in distribution have not been entirely eradicated..." In all of the aforementioned plants investigated, weak links and confusion existed, necessitating the adoption of effective measures to resolve these difficulties and to adapt to the requirements of "change in focus of the work of the entire party to socialist modernization."

1. Need To Devote Attention To Planning and Management, and To Strike a Balance Among Supply, Production, and Marketing

For the management of enterprises to be good, understanding and mastery of the laws of economic activity in enterprises is necessary. Supply, production and marketing are the three economic processes in enterprises. Together these three processes constitute a production cycle with each cycle repeating continuously to propel the continuous development of production. Every individual link must be tightly fitted together with every other. Slippage of any link can pose the danger of production stoppages in the enterprise with needless losses for the plant. If areas of potential conflict are to be uncovered in advance, a balance must be struck among supply, production and marketing. Planning units must consider and dovetail in every possible way the planning on varieties of goods, specifications, quality, amounts, technical methods (including manufacture of spares), plans for maintenance and repair, supplementary production plans, plans for workers' wages, plans for the supply of materials and technology, transport plans, cost plans and financial plans, and sometimes new product testing plans and basic construction plans as well.

Management of planning stands first in the management of enterprises. Nevertheless, today's enterprises commonly lack not only independent planning staffs but professionally skilled planning and statistical personnel as well. In the 16 plants we inspected, not one possessed an overall production plan for production methods or financing. They had only individual plans on specific matters for ad hoc use without any overall balance among them. At a pharmaceutical plant in Xiamen, for example, the plant had suspended production of chlorpheniramine for lack of raw materials though the needed raw materials existed on the premises. Their

planning and management was chaotic with no one assigned specifically to production management, nor was there any system of economic accountability. Since no one went over to the warehouse to get supplies, and since no one sent supplies from the warehouse to the workshop, work was halted to await materials with consequent loss in production of more than 3 tons of pharmaceuticals. Plants must set up and give substance to strong planning units and statistical structures and production management departments (or else task specific personnel), and take action as a matter of urgency to train economic management specialists. Professionally skilled planning and statistical personnel from the training programs must then be assigned to work.

2. Strengthen Management of Materials, Accelerate Circulation of Funds, and Manufacture More Numerous and Better Goods

In order to carry out uninterrupted production, enterprises must use a sufficient amount of circulating funds. In situations where production has increased or no change has occurred, the less circulating funds used the greater the contribution to the state. In enterprises, it is goods and materials that carry funds; thus, turnovers of goods reflect a turnover of funds. In order to make best use of everything and avoid both dispersal and overstocking, measures must be adopted all along the line to allocate materials according to needs with commonly used materials being concentrated under the unified management of the local materials company and special purpose materials being concentrated at specialized companies or combined companies. Basic level enterprises should be able to set aside small amounts of often used materials in order to hasten the circulation of funds. At the same time, good inventories of materials must be kept in order to prevent accounting errors and bad debts. The state should use the minimum amount of funds to run the maximum number of plants in order to create the most material wealth.

Presently, however, materials management at plants is quite chaotic with some principal plants, branch plants, and workshops, all lacking warehouses. Both dispersal of materials and overstocking are very serious and management of materials is in a mess. An inordinately large amount of circulating funds are tied up for each hundred yuan of value produced. Inspection at the 16 plants showed between 15 and 25 yuan tied up for every 100 yuan of value produced at the chemical plant, 23 to 24 yuan at the pharmaceutical plant, 25 to 35 yuan at the chemical fertilizer plant, about 31 yuan at an agricultural pesticides and herbicides plant, and about 15 yuan at the rubber plant. In the process of straightening out their warehouses, some plants conducted double five transformations, four positionings, and four matching-ups, and also delivered goods to customers' doors. But there was never any attempt at relating funds obligated for warehousing to purchase plans, or any attempt to relate deliveries of goods to customers to a verification of costs. Warehouse management

seemed pretty good on the surface, but blind procurement practices continued to exist. There was, for example, one plant that showed on its books as of the end of October 1978 components for electronic meters valued at more than 24,000 yuan though it used an average of only 2,100 yuan worth of such components annually. It had enough in the warehouse to last 11 years. Drill bits valued at more than 11,000 yuan were kept in storage though only 1,600 yuan worth were used each year. They would last for 7 years. There were also especially large amounts of materials in the pipeline. In Fuzhou, the books of one plant showed more than 1.7 million yuan worth of materials on order. At a plant in Xiamen during the highest month, materials in the pipeline amounted to 1.78 million yuan in value with 700,000 yuan being the usual monthly average.

Procurement personnel at some plants carried around on their person blank checks that they issued thick and fast, making purchases at will and turning materials procurement into a mess. At a small electrochemical plant in Xiamen, for example, procurement personnel issued 48 individual checks amounting to more than 720,000 yuan making impossible any inventory of what had entered the warehouse and causing accounts to be outstanding for a very long period of time. But the local bank and finance authorities in charge turned a blind eye to the situation. It is recommended that banks implement a system whereby accounts may be opened only within the city where the plant is located in order to curb the profusion of checks.

Additionally, careful stock control on every item in warehouses is also very important. At one plant in Xiamen, stock control cards were often written in pencil or ballpoint pen with messy corrections being made on the cards for quantities withdrawn. During the single month of October, 1978, 53 corrections were made. Double entry accounting methods were not in use, and corrections to the stock control cards were relied on entirely in calculation of costs, a method open to errors.

3. Set Up Strong Fixed Assets Controls and Put Fixed Assets to Maximum Use

The fewer the fixed assets in an enterprise, the lighter its burden of costs and the greater its profits can be. Therefore, good care must be taken of fixed assets, maximum use must be made of them, they must not be increased arbitrarily, and a strong system of accountability for the management of fixed assets must be set up. In the plants we inspected, as a rule no one was assigned responsibility for the management of fixed assets, and there was a lack of strict procedures for adding to them, reducing them, allocating and transferring them, inventorying them, or scrapping them. Basically there were no specific controls of fixed assets. Though some plants had a system, it was impossible to reconcile their overall categories with specific breakdowns. At one medium size chemical plant, no inventorying of fixed assets had taken place for a

for a long time. Items that should have been reported as scrapped had not been so reported, hence items that were nowhere to be found topped 4 million yuan in value of 5.7 percent of the original value of the plant's fixed assets. For this reason it is extremely important that a system be implemented not only for the amortization of fixed assets but also for compensating their use. This can strengthen management of fixed assets and increase their utilization rate.

4. Strict Management of the Number of Personnel and Work Norms with Constant Increase in the Productivity of Labor

The central task for all socialist industrial enterprises is the total fulfillment and overfulfillment of state production plans, increases in products useful to society, and enlargement of socialist accumulations of funds. If plants are to fulfill these tasks, they cannot rely simply on increases in employees. Instead they must organize well their available labor, implement quotas on personnel and norms for work, develop technological innovations and technological revolution, promote socialist labor competition, and continuously increase the rate of labor productivity. But some plants today rely not on increases in productivity labor but on increases in their labor force and their fixed assets. In one medium size plant, for example, where the annual value of production stood at 60 million yuan, production increased only 13.3 percent between 1966 (its best year on previous record) and 1977, yet the number of its employees increased 120 percent. In 1978, permanent employees numbered 4,774 with an additional 1,626 temporary employees on the rolls. Temporary employees amounted to 34 percent of permanent employees, which means that for every two and one-half permanent employees, one temporary employee had been hired. Wages paid temporary employees for 1 year amounted to 1.3 million yuan or half the total paid to permanent employees.

Maintenance and repair personnel constitute another example. Maintenance and repair personnel at that plant numbered 1,300. The workshops had mechanics, the branch plant had a contingent of mechanics, and the main plant also maintained a branch repair plant with mechanics. It was like supporting troops for a thousand days in order to use them just once. Furthermore, each shop was equipped with special purpose lathes and arc welders with a very low utilization rate, making for unnecessary waste. At the same time, work was done according to "the desires of those in command," so that whenever unexpected problems cropped up, still new links were added with further increases in personnel. In addition, there was a layering of the structure with no clear designations of responsibility for work. Employees involved in tasks other than production numbered more than 1,000. Paper flowed throughout the plant, numerous meetings were held that were both long and difficult to fathom, work procedures proliferated, things were done at a sluggish pace, and efficiency was very low. Unless such a situation is changed, how can the productivity of labor be increased and how can greater contributions be made to the implementation of the four modernizations?

5. Perform Well the Basic Work of Economic Accounting in Enterprises in Order To Show Production Trends in a Timely Fashion.

Estimates, management of norms and quotas, and original records of various kinds are fundamental to the scientific management of enterprises, and they also constitute the foundation for economic accounting in enterprises. The three are interrelated. If there is only management of norms and quotas without workable estimative work or complete original records, the management of norms and quotas becomes nothing more than a paper exercise. If the tools for making estimates exist, but there are no specialists to supervise or maintain them, or if there are specialists to supervise them, but there is no system of economic responsibility, it becomes an exercise in form.

Nevertheless, numerous basic level enterprises have not really given serious attention to these tasks. They do not possess good figures for needed raw materials, fuel, or energy. Take coal, for example. When it arrives at the plant, it is not weighed, and when it enters the furnaces it is not measured. In other cases, things are never counted when they enter or leave a warehouse. When the end of the month comes, a glance is given the coalyard and an estimate made. Estimative work is the eyes of economic accounting in enterprises, and unless it is thoroughly done economic accounting in enterprises cannot be carried out well.

6. Socialist Labor Competition Must Be Closely Combined with a System of Economic Responsibility and a System of Rewards.

Monetary awards are awards for overfulfillment of plans, and they reflect one form of distribution according to labor. But between 10 and 12 percent of the monthly prizes now being handed out on a trial basis according to total wages earned do not promote initiative among employees. They benefit only those who show up for a day's work rather than those who put in a full day's work. Plants should set individual awards in key areas including exceeding production norms, quality, economy, and safety, depending on just which weak links in management or production the enterprise seeks to strengthen. Socialist labor competition that has an economic content and that delineates clearly economic responsibility should also be strengthened. Competition, economic effectiveness, and monetary rewards must be closely interrelated to the overfulfillment of plans. The greater the overfulfillment, the greater the reward; the less the overfulfillment, the less the reward; and no overfulfillment, no reward. Employees at a pharmaceutical plant in Fuzhou said, "In a plant like ours where the annual profit exceeds 16 million yuan, if a system of rewards were implemented whereby only 0.5 percent or 1 percent was paid for overfulfillment of quotas, profits could be increased by 10 million yuan. With the state taking 99 percent of that and the employees getting only 1 percent, both would be happy. Distribution according to work reflects benefits for the individual, for the collective, and for the state alike.

But the existing payment of monetary rewards on the basis of overall wages does not mean that more work yields more benefits.

An effective monetary rewards system requires definite criteria. First, there must be quotas and these quotas must be average advanced quotas. Second, there must be a workable means of measuring performance, and, third, there must be economic effectiveness. Without these, no rewards can be made. In the course of our inspection, we discovered that individual units were preparing to hand out awards for economy despite lack of effective means for measurement and despite continued losses. Such action is bound to produce results opposite from those desired, and not only will labor's contribution to the quota not be reflected but, quite the contrary, society's wealth will be wasted.

For the leaders and employees of enterprises there should be a system of allowances for performance of duties. There should be a close meshing of the system of economic responsibility and distribution according to work. Different kinds of duties should rate different kinds of allowances. Those who are derelict in their duties should bear responsibility for making legal and economic restitution with transfers out for the incompetent and cancellation of the allowances that went with their duties. "Iron rice bowls" must be smashed, and more scurrying and competitiveness must take place in order to accelerate the realization of the four modernizations.

7. Fully and Completely Prevent Violations of Financial and Economic Discipline.

Inspections at more than 10 plants revealed violations of financial and economic discipline to one degree or another in all of them, with upper echelon administrative leadership organizations taking the lead in violations. Statistics for 4 plants in Fuzhou for the years 1977 and 1978 showed that more than 86,000 yuan donated for civil defense, for the people's militia, for educated youth, and funds solicited by schools at a pharmaceutical plant, a chemical plant, and a phosphate fertilizer plant were incorporated into the production costs of manufacturers. Even a public security substation directly solicited expenses from the plants. At basic level enterprises there existed, in one degree or another, practices such as a confusion of items constituting costs, helter skelter construction not called for by the plan, barter of some items for others, and arbitrary increases in criteria for expenditures.

The former practice of mutual inspection among enterprises had become, for the most part, "mutual covering up by officials," superficial understanding from cursory observation," and "no rocking the boat," or simply going through the motions.

A complete solution to this problem will require democratic management of money matters with finance departments making public each month all accounts, showing receipts and expenditures without interference from "administrative decrees" by the leaders of enterprises. Employee representatives should be free to inspect enterprise finances at any time. The government must promulgate economic laws and economic inspectorates, dispatching examiners to basic level enterprises to carry out inspections of economic discipline. Violators should be punished according to law. Otherwise, financial and economic discipline, as well as democratic management of money matters will become just empty talk.

8. The Problem of Successors to Finance and Accounting Personnel Must Attract Serious Attention.

Finance and accounting personnel in basic enterprises are all overage with young men few and far between. At a pharmaceutical plant in Fuzhou, where the finance section consists of four people, the oldest is 57 and the youngest 47. Average age is 51. In the 3-man finance section of a chemical fertilizer plant in Xiamen, the oldest person is 61 and the youngest 25 for an average age of 43. The level of skill in the accounting profession is also generally low. Of 39 finance and accounting personnel in a medium size chemical plant, only 14 have undergone training in finance and accounting schools. One of the 25 others had been in a finance and accounting training class, but the remaining 24 had had no specialized training. So, the problem of successors is a serious one. Finance and accounting personnel are uneasy about finance work, added to which leadership at all levels does not give sufficiently serious attention to finance and accounting work. Most old accountants are consequently disinclined to dig into matter and accountants, in general, are of no mind to study further. The minority of experienced accountants have not been placed in suitable positions owing to incomplete implementation of government policies. Old finance and accounting personnel with rich experience are not respected. As a result, accounting in some plants is in a mess with administrative work lagging far behind current developments and unable to meet requirements for the acceleration of the four modernizations. This should arouse the serious attention of all echelons of leadership. Government finance organizations should supervise and urge the departments responsible for doing work to investigate and appoint a group of master accountants and bookkeepers, who have undergone assessment and meet requirements, to establish accounting work as an honorable profession and to train finance and accounting personnel through various means.

Finally, we must respond to the call of the Third Plenary Session of the 11th Party Central Committee and shift work emphasis to socialist modernized construction. We must vigorously and speedily adopt effective measures to improve the management of enterprises, overcome confusion, and build a proper orderliness of production in order to hasten the pace of socialist modernization and to complete the overall tasks of the new period.

GENERAL ECONOMIC INFORMATION

BRIEFS

SICHUAN MATERIALS INVENTORY--Chengdu, June 4--A province-wide inventory being taken in southwest China's Sichuan had, by the end of May, disclosed that idle goods and raw materials display centres have been set up at several points in the province to sell these idle materials and make full and effective use of them in production while helping to ease market pressures. The overstocking of materials and products and poor inventory methods were mainly due to the demoralization of management in the days of Lin Biao and the "gang of four." Tight inventory control is an important measure to make full use of the funds and materials needed to speed up China's modernization. (Beijing XINHUA in English 0209 GMT 4 Jun 79 OW)

CSO: 4020

FINANCE AND BANKING

ELECTRONIC COMPUTERS APPLIED TO ACCOUNTING

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 3,
20 Mar 79 pp 30-31, 25

[Article by He Shengtang [0149 3932 2768]: "Applications of Electronic Computers to Accounting"]

[Text] The development of calculating devices began with tally sticks and abacuses, progressed through hand-operated, machine-operated and automatic calculators, and progressed to today's electronic computers.

Following the first successful trial production of electronic computers in 1946, development has been extraordinarily rapid. Approximately every 5 to 8 years, calculation speed has increased 10 times, reliability has increased 10 times, size has decreased 10 times, and costs have decreased 10 times. Computer capacity has shown a yearly increase of 17 percent. During the past 30 years, electronic computers have gone through 4 stages of development. The first stage saw electronic computers that used electron tubes. Computers used electron tube switches and electron tube triggers, employed punched tapes to convey operating instructions, and used electric pulses to calculate. In the second stage, transistors took the place of electron tubes to make transistorized electronic computers. The third stage saw integrated circuit electronic computers, i.e., inside the electronic computers were transistors, diodes, and resistors totaling more than 10 different components put together to form an integrated circuit rather small in size. The fourth stage saw large integrated circuit electronic computers. Their operating components and storage components together used more than 100 large integrated circuits. They also used liquid crystals, and light-emitting semi-conductors as display assemblies.

Desk type electronic computers were the ones first used in accounting. Desk type electronic computers calculated more rapidly, were more accurate, easier to operate, and saved more time and effort than either machine-operated or automatic calculators. Consequently, they gained rapid acceptance among accountants and rapidly expanded in use.

Electronic computers have developed in two directions since they first began to use integrated circuits. One direction has been toward miniaturization and precision; the other has been toward large size and multipurpose.

Concurrent with increased capabilities of operating circuits has been a miniaturization of components, and a miniaturization of inputting and outputting mechanisms that has made electronic computers smaller and smaller in size, and lighter and lighter in weight. In foreign countries, portable models (with a bulk and weight approximating that of a single hardback book), and pocket models (with a bulk and weight approximating that of a pack of cigarettes) are already in general use, and using pea-size square miniature cores. Electronic computers containing electronic components so small they can be seen only under a microscope (equivalent to a watch in weight and size) have already been successfully tested.

Electronic computers that followed in the wake of the development of electronic technology in the direction of large size multipurpose computers called "electronic brains" have brought accounting into the electronic age. At the moment there are about a total of 200,000 electronic computers in use throughout the world. Those either directly or indirectly employed in accounting work number about 40,000, or approximately 20 percent of all computers.

Since the early 60's certain professional accounting tasks began to be done by electronic computers, for example, in receipts and disbursements work in banks. When funds are to be withdrawn from a savings account, the savings passbook is inserted into the aperture of the computer and keys are pressed on the keyboard to input the amount of funds to be withdrawn. When the input devices receive this data, it converts it into electric impulses, which are sent to the computer's memory. The control unit issues an order, and the amount to be withdrawn is taken from the memory and fed into the operating device, which performs calculations. The results of the calculations are again sent to the memory, and under the action of the control unit they are sent as electric pulses from the memory to the unloader. The unloader, acting on the basis of "notification" sent from the control unit as to the amount, pays out the money. The unloader also converts the electric impulses into numbers and words, and prints the amount withdrawn and the balance remaining directly on the passbook. Both the money and the passbook are then sent automatically to the aperture of the machine and into the hand of the account holder. The same system works for withdrawing supplies from inventory.

A worker inserts authorization to withdraw a certain amount of material into the aperture of the computer. The computer reads the data from holes punched into the authorization. The computer thereupon compares the category of materials in the amounts authorized with both the criteria established for use of such materials and the amounts on hand in the warehouse.

If the amount of materials requested exceeds actual amounts in stock, the machine issues a red warning signal and the materials authorization is automatically ejected. When request is made for materials that conform to amounts authorized for withdrawal, the control unit issues a command in the form of an electrical pulse, and the materials will then be sent to the requesting unit on a numerically controlled conveyor belt. Simultaneously, a printing device controlled by the output device will print on the authorization both the amount of materials withdrawn and the cumulative total of materials withdrawn to date. The entire operation of the computer is under the direct control of the control unit and takes place automatically. The above transaction can be completed within a few seconds.

As the decade of the 70's opened, electronic brain technology progressed by leaps and bounds with accounting gradually putting to use large, multi-function electronic computers to bring about the electronization of business accounting, the miniaturization of storage, networking of transmittals, and a scientification of management.

The electronization of business accounting constitutes nothing less than the use of electronic accounting computers to replace accountants in the entire tasks of posting accounts, figuring accounts, balancing accounts, and rendering accounts. Accounting personnel feed an authorization into an electronic computer. The machine's electronic brain is able to distinguish the numbers and words on the authorization (or use information provided by holes punched on the authorization). Then, on the basis of a preset sequencing, it examines the authorization, calculates money costs, performs the accounting procedures of proper classification and posting and, depending on the requirements of the general ledger, the subsidiary ledger, and the accounting forms, the arithmetic unit sorts and reconciles the figures and sends the results to the memory. When accountants require any figures, all they need do is push a button to give a signal, and the figures are immediately printed out by a printing device. Once electronic accounting computers were adopted for use, calculations of the quantity of items times their per unit price, entries into the general ledger and the subsidiary ledgers, and calculations of the difference between initial amounts and balances were all done by the electronic brain with more speed and accuracy, and with everything tallying in every detail. At the same time that computers were posting financial transactions, they were also summarizing and sorting data. Consequently, it became unnecessary to figure up and write out account balances and fill out accounting forms at the end of each month. The computer could compile the accounting reports at once. Inasmuch as the capacity of computer memories is large and calculations speedy, it became possible to refine accounts more and more. As a result, demand for more and more exact computations increased, and thus accounting data more and more approached reality and accorded with reality.

Storage miniaturization entails the storage on microfiche of accounting data. After accounting vouchers, account books, accounting reports and forms have gone through a copying machine inside the computer and have been copied, a developing machine immediately reproduces microfiche. One developing machine can produce 1 meter of microfiche per minute. One microfiche 15 centimeters long and 10 centimeters wide can condense 270 pages of data. All of these data are numbered and stored by the computer. Should accounting personnel suddenly need it, all they need do is push an inquiry button, dial a number on the console, and the account book, voucher, or form required will appear in an enlarged display on a fluorescent screen. The use of microfiche to store account books, vouchers and forms as a means of miniaturizing the voluminous amounts of accounting data will vastly reduce storage space, make storage more convenient, insure accuracy, make retrieval easy, and remove the possibility of tampering with accounting data after the fact.

Networking of transmittals entails establishment by the principal organization (or head office) of an electronic computer center as a hub with each computer used in each branch enterprise (or branch company) being connected by dedicated wire to a long distance terminal and operations center to form an integrated electronic network that combines information processing and information communications.

Thus, all units participating in the electronic network can enjoy the computer hardware, software, and the numerical data stored in the computer. In this network, the electronic computer is comparable to the brain and nerve centers, and the communications network and the terminals are equivalent to the nervous system and the nerve endings. Each enterprise (or branch company) can transmit at a set time data on the motion of funds, e.g. currency received and disbursed, purchase and sales figures, quantities entering and leaving storage, materials and man-hours expended, etc. over the network to the computer center at the principal unit (or head office). The computer center's computers can then collate and tabulate into reports statistics from all basic level enterprises (or branch companies) and principal units (or head offices), print them out with a printer, display them on a fluorescent screen, or convert them into sound for broadcast to give the principal unit (head office) timely and complete control over the entire unit (company) and make possible accurate management and planning in the use of capital. Each enterprise (branch company) can handle both their mutual accounts settlement tasks over the computer network (for example, the Ministry of Foreign Trade can complete within 1 minute monetary transaction tasks with the offices it maintains in London and Tokyo), and can query the computer center through the terminals for data. In this way, a reduction takes place in the figuring of accounting data, in copying, in transmittal, in the compiling of reports and forms, in reporting, in checking, and in collation. It prevents computational errors, errors in copying, and errors in collation; and, it permits the unit in charge (head office) to know accurately and at all

times the overall situation in the movement of funds in the entire organization and subordinate enterprises (branch companies). It greatly increases the speed, accuracy, and comprehensiveness of accounting indicators.

Some countries have begun to link up the computer center networks of various units to form a national computer center network and a national data transmittal system, and have gone on to unify an automatic collection and handling system for nationwide accounting, statistical, planning, public finance, and management data. In this way, all automated management systems (from automated management systems for enterprises to management systems for central functional organizations) would be fully connected together for convenience in resolving problems in accounting, in statistics, in planning, in public finance, and in management allowing each echelon of the national economic management structure to exchange information, cooperate, and coordinate action.

The scientification of management entails use of computers to calculate all factors having a bearing on multi-faceted programs such as accountants face in preparing various plans (budgets). They employ parametric combinations and logic to make differentiations in order to select the most effective economic program (called optimum program) requiring the least expenditure with the greatest results being obtained in the shortest time. The data would be provided to responsible personnel in units and to accountants to decide policy. At the same time, data on movement of funds obtained during the computation process by the computers would be analyzed for differences between actual data and a simulated optimum. For example, on the basis of the sequential motion of capital in time and its simultaneous coexistence in space, accountants could use computers to select the optimum plan, separately determining the amount of circulating capital used in the supply process, the production process, the selling process, and other specific stages. In actual production management activities, computers reflect and store every single change in the movement of funds, and when suddenly the actual motion of capital runs counter to requirements laid down in the optimum simulated plan or exceeds the bounds of reasonable amounts, the computer gives warning at once with either a red light or a bell. When the accountants observe this, they can have the computer search out where and why deviations from the optimum plan have occurred in the actual use of capital, and then take effective steps in a timely fashion to get rid of whatever malpractices exist in management so as to assure realization of the optimum plan.

Under the guidance of Marxism-Leninism and Mao Zedong Thought, using national economic plans as the criteria, and on the foundation of mass bookkeeping, our nation's socialist accounting work is destined to become advanced. But owing to the destruction and interference of Lin Biao and the "gang of four," it still lags rather far behind the advanced

levels of the rest of the world in the use of electronic technology. Recognition of backwardness leads to the abolition of backwardness and an overtaking of the advanced. Inasmuch as the level of electronics is an important indicator of modernization, electronic technology is the most advanced product of science, of technology, and of management in the present age. Thus, the widespread use of electronic computers in accounting work can free accountants from prodigious amounts of onerous calculations, and can permit the performance of tasks that could not otherwise be performed in calculation, judgment, storage and management.

Computers can vastly increase accuracy, speed, and comprehensiveness of accounting work, elevating socialist accounting to a new level. We must liberate thought, inspire enthusiasm, study with an open mind, actively innovate, and strive to bring about an early computerization, a miniaturization of storage, a networking of transmittals, and a scientization of management, forging ahead to catch up with advanced world levels in order to accelerate the modernization of our nation's accounting work.

9432

CSO: 4006

CAPITAL CONSTRUCTION

NEWLY REVISED CAPITAL CONSTRUCTION ACCOUNTING SYSTEM OUTLINED

Beijing CAIWU YU KUAIJI [FINANCE AND ACCOUNTING] in Chinese No 3, 20 Mar 79
pp 28-29

[Article by Jian Zhi [1696 2535]: "Synopsis of Newly Revised Capital Construction Accounting System"]

[Text] In order to improve capital construction accounting work, to bolster economic accounting, to do things according to economic rules and regulations, and continuously to raise the level of management, the Ministry of Finance, following summarization of the practices and experiences of the past several years and after having broadly sought the views of all quarters, has conducted a revision of the capital construction system of accounting.

1. Essentials of the Revision

a. Two sets of accounting procedures have been formulated to meet different management requirements. In the existing capital construction management system, some projects use a contract system whereby the constructing unit commissions an outside construction firm to do the construction. Some other construction projects employ a self-operated system whereby an independent construction firm subordinate to the unit doing the building does the construction work. There is both capital construction investment accounting and construction and installation project cost accounting with the task being rather complicated. Moreover, the scope of investment in a construction project may be large or small, the construction may be simple or complex, and the level of management may be high or low, all of which requires differences in the accounting and bookkeeping requirements and in the headings set up in the account books. In order to meet the above situations, the single set of the original regulations has been revised into two sets, namely, "Capital Construction Accounting System" (abbreviated as the first set), and "Capital Construction Simple Accounting System" (abbreviated as the second set). The former is intended for use principally by self-operated construction units and by independent construction

units subordinate to them, and by affiliated enterprises such as metallurgy, hydroelectricity, and chemical industry construction companies that are systematized. The latter one is intended principally for use by outside construction units commissioned to do construction, i.e., the construction let out on contract, and for use by self-operated construction units doing rather small jobs.

b. Profit and loss accounting for construction work shows the effectiveness of management. Beginning in 1979, the government required construction units where construction is done by the self-operated method, to settle accounts for monies to be paid for construction and installation work on the basis of the working drawing budget. It prescribed a lowering of the project cost index, a turning over of profits to the higher authority, recovery by the enterprise of its own funds, explicit economic responsibility, and a change in methods for reimbursement for expenses. To meet these requirements, the new regulations have added these accounting requirements for ease in completely showing management achievements.

c. Inasmuch as there are many new accountants who are not very familiar with the profession, a rather detailed explanation of accounting entries has been given, and a breakdown of key accounting entries has been listed as an aid to study, mastery and application. At the same time, in order to meet the stipulations of pertinent capital construction management systems, pertinent bookkeeping entries have also been increased.

2. Several Problems About Accounting Headings

a. In order to calculate profits and losses in self-operated projects as well as to be able to hand over profits to higher authorities and recover the enterprise's own funds, the new system stipulates that construction units must set up a category for "building and installation projects construction" to keep track of all expenses incurred in the building project. Also to be set up is a category titled, "project settlement" for calculating the budgeted costs and the actual costs in the building unit's final accounting for the project. "Profit" is another category to be set up for calculating construction profit and other profits realized. "Distribution of profit" is still another category for calculating profits turned over to higher echelons plus the amount of the enterprise's own funds withdrawn from the profits. At the same time the first set of regulations stipulate that the materials, semi-manufactures, structural items and labor must, at the time they are sold and provided, be settled on the basis of fixed prices, and that there be set up accounting headings as follows: "subsidiary enterprise products," "finished products," "goods issued," "sales," and "profits" for separate accounting for production expenses and for manufactures inspected and accepted into the warehouse with consignment, acceptance, pending, and disbursement methods for settling accounts used for manufactures sent out for sale, for sales revenues derived from sales of finished products, and for sales costs and sales profits.

b. Appropriate changes in scope of accounting for partial expenses. The "temporary differentiation of expense items in building and installation projects" stipulated by the National Construction Commission and the Ministry of Finance in 1978 provides that expenses incurred by construction enterprises in carrying out building and installation projects that have not been included in the building and installation projects budget (direct expenses), and those expenses of construction management not figured in, must be treated as independent expenses and be collected from the unit doing the building. These expenses may be classified into two types according to their character: one type is expenses related to the construction project that are calculated according to the different circumstances of each individual project such as projects at a distance, night construction, and increased expenses resulting from construction during a rainy season. Another type are expenses not directly related to the construction project but necessitated by the construction, such as transfers of construction apparatus, school expenses for children of employees, and expenses for temporary facilities. The new system rules that the first of these kinds of expenses fall within the scope of building and installation project costs. At the time that the unit doing the building appropriates money for the construction project, these expenses should be included in the budgeted costs and entered under the heading of "construction and installation investment" in the accounts. By the same token, when the construction unit figures up the budgeted costs of the project (including these expenses), it should treat them as accounts receivable project funds and enter them under the heading, "project settlement." When the construction unit actually pays these expenses, they will be termed production costs and directly recorded under the heading, "building and installation construction," or first recorded under the "construction administrative expenses" heading and later differentiated among the relevant projects. The latter category should be recorded in the "other capital investment" heading after the building unit has disbursed the money, and these expenses received by the construction unit should be treated as special funds and recorded under the heading "special funds." Expenses for the transfer of construction equipment, depending on fixed criteria for the actual circumstances, are tabulated for the unit doing the building and may be treated as special funds for disposition.

c. Special funds and capital construction investments to be separately accounted. To meet the requirements for special purpose funds, special account reserves, and special use of special funds, the first set of regulations sets up two headings: "funds and reserves for special use," and "special funds projects." In accordance with regulations for withdrawals and deposits, the various special purpose funds deposited to special purpose fund accounts in construction banks are accounted for under the heading, "special fund reserves."

Various projects that use special funds are identical in the main with capital construction, and they are building and installation projects

for which it is difficult to define strictly a use of materials distinct from materials used in capital construction. Therefore, the new regulations do not establish the separate heading, "special fund reserve materials," but lump them with capital construction fund reserves until such time as the materials are used for special funds projects and then reimburses them from special funds. If subordinate construction units undertake special funds projects and calculate the amount of construction and installation, it is then treated as a special fund project contracted for by the construction unit. According to regulations, when special fund reserves are paid in advance as funds for readying materials and as project funds, they are recorded in "other accounts receivable." At such time as project accounts are settled, they are again both recorded in "special funds project" and removed from the "other accounts receivable" (project funds to be paid from which have been deducted advance payments for readying materials and project funds advance payments), and "special fund reserves." Special fund projects operated by construction units themselves or carried out by their subordinate construction units that have not been calculated as part of construction and installation work will be carried in the "special funds projects" for the materials and capital used in each special fund project, and deleted from the columns for "major materials," "price variance for materials," "wages," and "construction management expenses." At the end of the month, timely restitution should be made from the special funds for whatever has been recorded under the "special funds project" heading that is calculated to be an advance of capital construction funds. These sums should be added under the "quota reserves" or "bank reserves" heading and deleted from under the heading, "special fund reserves." Once a special funds project has been completed, inspected, and accepted and [the category] changed temporarily and suddenly, it should be deleted from under the heading "special funds project" and also from the heading, "special funds." Temporary construction projects, when completed, inspected, and accepted should be transferred from under the heading, "special fund projects" to "temporary projects," and once the temporary construction has been dismantled and cleared away, the funds should temporarily and suddenly be changed again to "special funds" and deleted from under the "temporary construction" heading, and the "special funds" heading.

3. Several Problems About Accounting Report Forms.

a. In order to show in timely fashion the capital construction financial picture and assess use of all categories of capital, a quarterly composite capital construction form has been devised. Concurrently, a quarterly project cost and profit form has been revised for use by self-operated construction units to help them gain an up-to-date understanding and mastery of the results of their operations, analyze their costs, and supervise payment of profits. To the annual report has been added a "fixed assets increase or decrease" form and a "special fund increase or decrease form" to help understand changes in fixed assets and depreciation.

b. The balance sheet format of the capital construction summary form has been instituted in a change from the selective reporting of key indicators. The advantages of the balance sheet are as follows: 1) it is able to show a complete picture of the sources and uses of all capital; 2) compilation procedures are handy. In general, it can be completed from end-of-the period balances shown on the main ledger and subsidiary ledgers with no further refinements. For example, the facilities and materials sections of the original report form could be filled in only after analysis and calculation of end-of-period balances for warehoused goods, goods in transit, goods on consignment or undergoing processing, or pricing discrepancies for goods. By using the balance sheet system, however, these categories can be filled in by taking data directly from pertinent accounting columns that show end-of-period balances with both a simplification in calculations and a reflection of materials in the warehouse, on the way, on consignment, in process, or having pricing discrepancies; 3) it helps timely settlement of accounts and it aids checking of the report form to see whether all the indicators have been fully filled in and whether the figures are accurate.

3. Need for revisions to the original form. In order to show total construction and to assess the extent to which budget estimates are carried out, as well as to compile data provided upon completion of work and settling of accounts, the construction cost form has added two columns for figures to show the grand totals that must be disbursed as expenditures for investment and disbursed for other expenditures from the time construction commenced until the end of the current year. When these are added to the grand totals of the final figures for investment from the time construction commenced, the total expenditure for capital construction will be provided. The original form for costs of construction and installation showed total expenditures during the reporting period for self-operated construction and installation projects--both those already completed and those not yet completed. The newly stipulated requirement that project funds are to be calculated on the basis of working drawing estimates has occasioned a change to show the projected costs and actual costs for self-operated and contracted construction and installation projects, and to show accurately lowerings in project costs.

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FOREIGN TRADE

INCREASE IN ECONOMIC EFFECTIVENESS OF IMPORTED TECHNOLOGY NEEDED

Beijing CAIWU YU KUALI [FINANCE AND ACCOUNTING] in Chinese No 3,
20 Mar 79 pp 18-21

[Article by Wang Furang [3769 4395 4492]: "How To Improve the Economic Effectiveness of Imported Technology and Equipment"]

[Text] The Third Plenary Session of the 11th Party Central Committee pointed out that we want "to develop active cooperation with all nations of the world on terms of equality and mutual benefit and on a foundation of self-reliance, and we want to strive to adopt advanced technology and advanced equipment from all over the world." This constitutes an important strategic measure in the overall task of accelerating realization of a new era. Efforts to increase the economic effectiveness of imported technology and equipment, to spend less money, to do more work, to begin production earlier, and to see results more quickly, can advance the advent of the four modernizations. Conversely, imported technology can unfavorably affect the national economy. On the basis of lessons learned from past experience, improvement of the effectiveness of imported technology and equipment will require, we believe, attention to the following problems:

1. Setting Forth an Economically Rational Plan for Imports

In the past we have used deferred payment plans, for the most part, when importing technology and equipment. At the moment, it appears we have a choice among many methods such as direct borrowing from foreign firms or Overseas Chinese, compensatory trade, i.e., repayment of foreign firms with finished products from the plants for which they provided equipment and for which they rendered assistance in construction, or repayment with resources they developed, joint investment of capital with foreign firms to build plants and manage them jointly for a fixed number of years with a sharing of profits proportionate to investment. In short, after calculation of economic benefits, and on the basis of different concrete conditions, we must adopt the methods that benefit us most.

Introduction of technology and equipment must be done on the basis of self-reliance. At the moment, when the distance between our technological level and the advanced level of foreign countries is great, we should adopt the method of importing patented technology and complete plants. Later on, when our technological level has increased somewhat, we should adopt the method of importing technology and individual machines and use the imported technical data to begin manufacturing such equipment ourselves. Experience has shown a system of combining the imported and the domestic to form a whole is possible in the construction of large plants, and this method saves foreign exchange. But things that one cannot manufacture, or can manufacture only with great travail, must be imported without question. For example, in a large synthetic fiber plant that had already been built, 9 of the 18 major pieces of equipment had been imported from abroad with the remaining 9 manufactured domestically. The imported portion required investment of one-third of the total invested with the domestically produced portion accounting for two-thirds. This conserved a large amount of foreign exchange, but there were some items of equipment that really should have been imported but were not. Instead, they were manufactured with great difficulty by copying technically outmoded equipment that had been imported during the 50's. These domestic manufacturers were unable to meet planned capacity, and quality of output was poor with consequent adverse effects on the benefits derived from investment in the entire project. There are lessons to be learned from this experience.

The equipment and technology that we import must be of a truly advanced kind, and for this reason we must organize well our overseas inspection and technical intelligence work, understand the various performance characteristics of equipment from different countries, and know about differences in quality of equipment and prices. We must adopt international practice of having firms in each country quote prices and tender bids so the best may be selected for importation. We must do comparison shopping if we are to avoid losses. Personnel who go abroad to inspect, to negotiate, and to make preparations for construction should best maintain continuity in their assignments with no transfers of personnel done lightly. Without such continuity, personnel will be unfamiliar with matters and thus unable to make proper judgments. Technical negotiations and commercial negotiations must be conducted concurrently with no technical deals being made first to be followed by discussions of price. In this way we can avoid a jacking up of prices by foreign capitalists with us getting the worst of matters.

Planning must be done over the long range in the selection of equipment of a size that is most economically practical. Generally speaking, the average per unit cost of equipment with large production capacity is much lower than per unit cost of equipment with smaller production capacity. If planning is done over the long range, purchase of two pieces of equipment of small production capacity would not be as wise as purchase of one

piece of equipment of large production capacity. For example, given the prices of the past several years, about 30 million U.S. dollars would be needed to buy equipment to produce 115,000 tons of ethylene per year. But equipment that can produce 300,000 tons would cost no more than 45 million dollars. Some of our chemical plants spent 30 million dollars during the first phase of a project to import equipment to produce 115,000 tons of ethylene, and then wanted to spend an equal amount for a second phase of the project. Wouldn't it have been better to have spent 45 million dollars at the outset to import a 300,000 ton model for a savings of 15 million dollars and an increased annual output of 70,000 tons of ethylene?

2. Include Imports in National Economic Plans; Balance Funds

Use of foreign capital to import technology and equipment requires expenditure of large amounts of funds that must be included in national economic plans and a balancing of funds.

First, there is the balance between borrowing and repaying funds. Importation of technology and equipment will be done, by and large, through borrowing of capital from abroad, through long term credits, and through compensatory trade. All these methods are, in fact, forms of borrowing. Joint investments, moreover, also raise the problem of redemption following completion of the investment period. Borrowed funds, whether compensated in currency or with goods, and no matter how repaid--whether by government finance departments, departments responsible for work, or basic level enterprises--will adversely affect government revenues and expenditures (either by increasing expenditures or reducing revenues). Therefore, at the time funds are borrowed to import technology and equipment, thought must be given to the problem of how they will be repaid with computations and plans made about the amount of annual interest, annual profit once production begins, amount of depreciation, date for beginning of repayments, what monies will be used to make repayment, and how many years it will take to clear the debt, etc. Importation of technology and equipment must be done according to both needs and ability to pay with distinctions between the less important and the more important and between what is less urgent and more urgent. It must be done step by step according to a plan. There should be an agency responsible for unified examination and balance in import plans. Every national economic plan must set forth annual borrowing and repayment plans, with particular emphasis on how much foreign exchange is to be paid on debts each year, the amount of renminbi, and the amount of goods to be exported. Comparisons of interest rates offered by various foreign firms must be made, and analyses and evaluations must be made on the likelihood of rises and falls of various foreign currencies. Sometimes, a price figure in a foreign currency that is likely to rise in value may not be as profitable, even at a lower interest rate, as a price figure at a higher interest rate in a foreign currency that is likely to fall.

Secondly, there should be a balanced mix between foreign capital and domestic matching funds. Even when complete plants are imported, usually a large amount of domestic equipment must be used and local engineering work done before the enterprise takes shape. Figures derived from past importation of chemical fertilizer, chemical fiber, and steel rolling plants show, on average, that for every dollar's worth of equipment imported, about four in renminbi in matching investments is required. Of course, there are differences from one plant to another with somewhat less matching investment required when the proportion of domestically manufactured equipment is small. The converse requires a bit more. Consequently, when formulating the national economic plan and the national budget, thought must be given both to capital required for imports and to domestic matching fund requirements. Domestic equipment required for construction, materials required, and labor force must also be given appropriate consideration; otherwise, the overall balance of the national economy may be thrown into confusion with adverse effects on the benefits derived from the imports.

3. Balance Equipment Inside and Outside the Plant

Every production link of imports, including power supply, raw materials, and spare parts must be matched one with the other; otherwise, the plant even when completed will not be able to achieve its full production capacity.

Foremost is the matching of production links, including a balanced relationship between each import as well as between imported items and existing items. If, for example, ethylene equipment is imported, high pressure polyethylene equipment polypropylene equipment, and butadiene equipment to match it must also be imported at the same time if the ethylene is to be processed into useful chemical products. If this is not done, the ethylene produced will be of no use. It can only be burned up or not produced, or produced in reduced amounts. Possibly the first 300,000 ton ethylene equipment we import will meet or even exceed rated daily and monthly capacity, but rated annual capacity may not be attainable for a long time. The reason may be that delivery of some of the several items of equipment required to process the ethylene may have been deferred so that there is no way to dispose of the ethylene and the propylene produced, so production must be cut back. Or, as another example, once a certain steel plant imports a large steel rolling machine, its annual capacity to produce rolled steel may zoom to 5 million tons. But to do this, 6 million tons of steel ingots and 6 million tons of iron may be needed that the plant is unable to provide since it can smelt only 4 million tons per year. So a shortfall of 1 million tons will result. Furthermore, all the mines that provide iron ore to the plant can assure production of only 3 million tons of pig iron annually. Had these problems been considered earlier and timely solutions found for them, the

rolling mill could have achieved maximum production capacity as soon as it was built. Since that was not done, full production capacity of the import will not be fully realized for a very long period of time.

If major items in the production chain are not well matched--items like power supply, raw materials, and spare parts--rated production capacity will not be achieved. Experiments show, for example, that the capacity of equipment at an electric power plant must amount to at least 25 times the surge load a rolling mill imposes when it is running. If the load of the rolling mill during operation is 100,000 kilowatts, then the capacity of the electric power equipment must be greater than 2.5 million kilowatts to be able to operate the mill. If, however, the entire electric grid of a whole province is less than that amount, the problem may be solved only by tying in with the electric grid of a neighboring province. Tools and spare parts for imported large steel rolling mills are something else to be considered. Those that come with the machine imported from abroad usually suffice for only 2 or 3 years. Long range planning requires arrangements for test manufacturing and production of them. Among the parts required will be more than 1,000 roller bearings of complex arrangement that will require urgent research for test manufacturing. Production by large synthetic fiber plants and chemical fertilizer plants requires hundreds of different kinds of raw materials and dyestuffs. We had better make arrangements to give our domestic chemical plants investment funds to enlarge their plants or to dig up raw materials so these materials and dyestuffs can be produced. If they cannot be supplied domestically, they can only be imported from abroad with a waste of large amounts of foreign exchange.

4. Insure the Quality of Imported Technology and Equipment

Imported equipment must be of the finest quality if it is to provide maximum benefits once it goes into production. Generally speaking, the more far-sighted foreign firms stress commercial trustworthiness and care about the quality of their equipment. If, however, we appear uninformed or do business in a slipshod way, they may take advantage of us. We must, therefore, establish close cooperation with foreign firms and encourage their trustworthiness to assure delivery of quality equipment. We must also reinforce our quality inspection work to prevent losses. The technological data we provide foreign firms must be practical and realistic. Since these data form a basis for technical design and equipment manufacture, it is only we, ourselves, who will be hurt if they are not correct. For example, one plant that was importing equipment provided technical data to a foreign firm that said the water in use at the plant contained less than 35 parts chlorine per million when, in fact, it was as high as 100 or 150 parts per million. On the basis of the data provided, the foreign firm selected materials to manufacture the equipment, but following installation and testing corrosion became serious in much

of the equipment and the plant was forced to spend another large sum of money to dig canals to bring in water of better quality. If realistic and practical data had been supplied in the first place, the foreign firm would have used corrosion-resistant and stainless steel to manufacture the equipment and this problem would not have arisen. From this it may be seen that how well technical data provided accords with the facts can directly affect the quality of the imported equipment. To misrepresent our water as cleaner than it actually is, as if to put a pretty face on our country, is a thoroughly mistaken way of thinking.

Conscientious inspection of the quality of imported equipment is a very important measure to assure that imported items begin production without a hitch. Inspection of imports of whole plant equipment is quite different from the inspection of single machines in that foreign firms are required by agreement to be responsible for testing and checking equipment to the satisfaction of both parties before it will be accepted. Inspection work may be divided into three stages: first is harbor inspection, i.e., an inventory at the time delivery is accepted to see that all items are there and that they are undamaged. Second is an inspection prior to installation that is usually carried out when the equipment reaches the work site. This consists mostly of testing valve pressures, debugging meters and gages, leakage tests on pipes and conduits, etc. Third is the trial run, consisting of the test running first of individual machines and then as a unit. Testing includes a check for foreign objects moving about in the machines. Practice has demonstrated that only through conscientious testing of the quality of imported equipment can many problems be discovered. For example, testing of an imported chemical fiber plant, stage by stage, revealed more than 4,100 problems including leaks in the standpipe as well as in various containers and receptacles, and in valves, inaccurate gages etc. More than 140 of the more serious problems required return of the equipment to the foreign firm to make it right and an indemnity payment of more than 6.8 million yuan. Not only was the quality of the equipment thereby assured, but great economic losses were also averted.

5. Accelerate Construction for Imports

If the construction period for imports is delayed for too long, not only will no benefit derive from investment of capital but repayment of credit will also not be possible. Generally speaking, it takes between 3 and 5 years following the signing of an agreement with a foreign firm for construction to be completed for items to be imported. When the task is particularly arduous, strong measures must be taken to speed construction.

First of all, the basic construction procedure should be adhered to, but a reasonable amount of flexibility should be allowed in interfacing. For example, the overall design procedure for an imported chemical fiber plant

may be interfaced in three ways provided there is no adverse affect on the quality and provided there is no violation of the principal of waste through having to do work over again. The three interfaces are:

Interfacing of the overall plan with the expanded preliminary plan of each item; interfacing of the expanded preliminary plan and the working drawing; and interfacing of the technological plan and the engineering plan. The overall plan is the foundation for the expanded preliminary plans for each item. But during the period of negotiations with the foreign firm, when the book showing the general tasks to be completed has not yet been approved, there is no completed overall plan. In order to hasten progress on this plan, the location of each branch plant should be decided after a careful survey has been made, and then a decision should be made on a products plan and an overall transportation plan. Then, on the basis of a previously written overall plan outline, and on the basis of a signed agreement on the engineering to be done and on the sequencing of the work, individual expanded preliminary plans for each portion may be drawn up, and work can begin on them one by one. Before the overall plan tasking book has been formally approved, some engineering that should be performed at the outset has already been written into the expanded preliminary plan, and work has been laid out. Before an advanced preliminary plan for each thing has been formally written up, once the overall layout drawing of all parts has been decided upon, all that has to be done is preparation of a working drawing that takes account of the relative importance and speed for each task. Work may then be started. A similar method may be adopted for interfacing the technological plan of the equipment with the construction plan. This will hasten construction without adversely affecting the quality of the engineering.

Secondly, complete supply of equipment, full supply of materials. Complete supply of equipment is an important factor in the acceleration of construction. Imported equipment is supplied in entirety. Domestically produced matching equipment is supplied entirely by the department in charge or by an organization in the province or municipality unless it falls within the province of items supplied by the head office. The convention of holding meetings to place orders twice each year should also be broken with arrangements being made for supply as needed. With materials as well, supply should be assured, insofar as possible, at the time they are needed.

Third, in making plans to organize construction, wage a step-by-step war of annihilation. Planning and construction units involved in the importation of large items often number a score or more, so a command post must be organized to give coherent direction in order both to muster active participation by all quarters and to strengthen cooperation. Each unit must, however, individually account and separate out its own economic responsibilities. The command post must be able to work out with each construction unit a plan to organize construction so as not to work at

cross purposes. In the plan for organizing construction, there are certain things that must be done. First comes anything lying below ground followed by anything lying above ground; first comes the domestic followed by the foreign; and first comes construction followed by installation. By this is meant that pipes and wires must be installed first and then aboveground construction may begin; first lay a groundwork for domestic construction and for installations from abroad, and only afterward concentrate forces to install the foreign equipment once it arrives; peaks of construction work and installation work must be staggered. Following these principles, several battle campaigns may be set up. A schedule for staggering various projects may be set up and linked together with work being done systematically, well and fast.

6. Raise Our Country's Technological Level Through Imports

Our object in importing advanced technological equipment is to raise the level of our country's technology and promote development of production. First is to raise the "spot" technological level--things like operating equipment and overhauling--followed by raising the "across the board" technological level--things like replication of equipment and improvements in equipment.

Once imports have been decided on, preparations must be made to operate and overhaul the machines. A group of workers possessing a certain cultural level and practical experience has to be assembled, and technicians must be trained within the country. Once the contract has been signed, depending on its stipulations, a certain number of workers should be sent abroad to study. Following their return home, their knowledge should be put to full use with no arbitrary transfers away from their posts. This is the only way to rapidly master the essentials of machine operation. The Beijing Main Petrochemical Plant imported ethylene engineering that ran successfully in their very first test runs and produced properly once they went into full production. This happened because preparatory work was done well. In another case, though some personnel showed promise in training for imported equipment, serious accidents occurred in the course of test runs, showing that technical training had been inadequate. Overhaul of equipment at plants already built wants for adequate training and an urgent need exists for classes to remedy this lack. Unless this is done, when major stoppages occur it will be difficult to assure normal operation of equipment.

Raising the technical level must proceed from the spot to the across-the-board. Once imported equipment has been put into production, it is still necessary to organize relevant planning, production, and scientific research units to collect data, to conduct examination and sketching of components, to research, to experiment, and to achieve a true mastery and a true digestion of data. Only in this way can we replicate and copy equipment so as to turn advanced foreign technology to our own purposes

and rise on this foundation. But some units frequently lack specific arrangements for doing this, and much red tape limits such activity with adverse consequences for the replication and extension of technology. For example, manufacturing blueprints for equipment may be brought in by foreign experts sent with imported equipment. They allow reproduction by only a single planning institute, but proper equipment for reproduction is not available there so the resultant photographic prints are useless. Later, the Chinese Academy of Sciences sends someone to reproduce them, but since much time has already passed the foreign expert has departed for home taking important blueprints with him. Much imported equipment has not been examined and sketched on time, and once it has been installed examination and sketching is difficult. Some equipment that had already been installed was disassembled for examination and sketching, but many difficulties were encountered in reinstalling it. Of course, when replication occurs we would not necessarily want to produce every piece of equipment. Rather difficult technology would be temporarily imported from abroad in single machines. Otherwise, if we wait until every circumstance is just right before undertaking replication, a long time may be required before we succeed and production will be impeded.

"A thousand mile journey begins with the first step." We have not been importing technology and equipment for very long, so our experience is not very complete. We must, in the course of our future long march, further summarize our experiences and the lessons we have learned so as to advance and improve continuously and make further contributions to the main task in bringing about a new era.

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FOREIGN TRADE

'CHENG MING' OPTIMISTIC ON JOINT VENTURES PLAN

Hong Kong CHENG MING in Chinese 1 Jul 79 pp 11-12 HK

[Article by Hsiao Cheng [5135 1004]: "Prospects of Joint Ventures in China"]

[Excerpts] Since launching the movement to "emancipate the mind," communist China has liberalized its economic policies in dealing with foreign countries, buying complete sets of plant equipment, introducing compensation trade and promoting joint ventures that will be a great attraction to foreign investors. Chinese economic planners have finally abandoned dogmas and platitudes in favor of a more practical approach to their longstanding problems.

In his report to the second session of the Fifth NPC, Hua Guofeng stressed the importance of absorbing foreign funds. Chinese economists believe that joint operation of enterprises is more appropriate than importing complete sets of equipment and running enterprises under franchises or introducing compensation trade. China is therefore expected to operate more joint ventures with foreign investors in the future.

Operating joint ventures will benefit China in many ways. First, it will supplement China's lack of funds and foreign exchange. Second, it will enable China to obtain advanced technology faster than it can now because complete sets of equipment will become obsolete by the time capital construction is completed and ready for production. Moreover, foreign companies operating in China will be responsible for the international marketing of the products. This will save China considerable marketing expenses.

The China market is attractive to foreign investment because the country's obsolete production processes can never satisfy the increasing demand for products. Since China is committed to developing production and improving the people's living conditions, the demand for commodities will potentially increase. Operating joint ventures will provide ready outlets for products. China's abundant energy resources and cheap labor are attractive to foreign investors.

China recently shocked the world by announcing its readiness to export laborers. This involves operating factories, farms, shipping, building construction and service industries in foreign countries on a partnership basis, with China supplying the labor. Since the 1960's many developed countries to earn foreign exchange and solve employment problems. [as printed] China is also confronting foreign exchange and unemployment problems. By exporting laborers, China will be taking a very wise step. It is said that China plans to organize a million people in 3 years to work abroad and is ready to conclude specific contracts with enterprises willing to accept Chinese laborers on joint ventures and partnership bases. It is estimated that Chinese laborers can each earn between \$7,000 and \$8,000 a year. They will be permitted to send home one-third of their incomes [to] support their families. (This means that each family will receive about 4,000 yuan a year, virtually a "windfall" for mainland people earning only between 40 and 50 yuan a month.) By exporting laborers to other countries, the state will net \$2.5 billion in foreign exchange, not including the profits from partnerships in joint ventures. Commenting on this scheme, Chinese economists have said: "By operating joint ventures in foreign countries and contributing labor on a partnership basis, the state will be able to foster an army of qualified technicians and amass foreign exchange earnings. It behooves the state to carry out this scheme in a planned way."

Chinese options for operating joint ventures will ideally be with those world renowned, well established enterprises, whose products bear well-known brands. This is the experience of Yugoslavia, Romania and Hungary in operating joint ventures with foreign investors.

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FOREIGN TRADE

BRIEFS

ZHEJIANG COUNTY EXPORTS--Jinhua County, Zhejiang Province, in 1978 earned 19.51 million yuan export income, overfulfilling the year's quota by 8.6 percent. In January through May this year, the county provided the state with 7.73 million yuan worth of export farm and sideline products, or 46 percent of the 1979 quota, 62 percent more than the same period of last year. [Hangzhou Zhejiang Provincial Service in Mandarin 1100 GMT 15 Jun 79 OW]

SHANGHAI CLOTHING EXPORT--Five new clothing factories of collective ownership were set up in April this year to provide employment for educated youth. According to the design, the five factories can produce 3.3 million pieces of clothing for export and may earn \$8.25 million each year. The Shanghai Municipal Clothing Industry Company plans to set up 14 factories to provide employment for 2,500 educated young people. [Beijing XINHUA Domestic Service in Chinese 0158 GMT 8 Jul 79 OW]

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TRANSPORTATION

BRIEFS

QINGHAI-TIBET RAILWAY--Xining, June 24--Track laying was completed yesterday evening on a 32-kilometre section over a big salt lake on China's Qinghai-Tibet Railway. The railway is now within 60 kilometres of Golmud, a county town in the central part of Qinghai Province and terminal for the first phase of construction. The first phase of the project which is scheduled to be finished before national day this year runs westward 834.5 kilometres from Xining, the capital cit of Qinghat. Road bed construction has already been completed. Early in the 1960s the Chinese Academy of Sciences and the Academy of Railway Research conducted scientific surveys in the salt lake area and confirmed that a railway could be built across the lake. Construction started in 1974. [Beijing XINHUA in English 0815 GMT 24 Jun 79 OW]

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